

Idaho Legislative Audits
P.O. Box 83720
Boise, ID 83720-0054
208-334-2475



Office of the Idaho State Treasurer

Management Report on Financial Procedures

Issued: April 5, 2005
Fiscal Year: 2002, 2003, and 2004



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

OFFICE OF THE STATE TREASURER

PURPOSE AND SCOPE. We have completed certain financial audit procedures on the Office of the State Treasurer's financial activities that occurred during the fiscal years ended June 30, 2002, 2003, and 2004. These procedures, together with procedures performed at other State agencies, allow us to express our opinion on the statewide basic financial statements prepared by the State Controller's Office.

CONCLUSION. Although we discussed issues for improvement, we conclude that the financial operations of the Office meet accepted standards and that it substantially complies with laws, regulations, rules, grants, and contracts for which we tested compliance. One finding and recommendation is included in this report, that will, if implemented, improve efficiency, effectiveness, compliance, and controls of the Office.

FINDINGS AND RECOMMENDATIONS. We have summarized the finding and recommendation below.

FINDING #1. Internal controls are inadequate to ensure the accuracy of all transactions in the Local Government Investment Pool. Following are examples of weaknesses in the internal control system that need improvement.

1. The application used to calculate participants' earnings in the Local Government Investment Pool does not have edits to restrict changes to the underlying investment. Additionally, the Office does not require evidence of supervisory review and approval of changes to the investments. As a result, manual adjustments to certain investments accelerated premium amortizations and overpaid participants by approximately \$112,000 in one month.
2. Adequate documentation explaining the purpose of investment trades, and how those trades correlate to the Office's investment policy, was not available for eight securities sold for losses during fiscal year 2004, totaling \$1,047,949.
3. The amount determined as earnings for distributions is not reconciled to the monthly transaction report, by participant, to ensure that amounts earned are actually distributed in the appropriate pro-rata share.
4. The application allows adjustments made in the current period to affect prior period reports. This changes reported amounts that may have previously been used for earning distributions or pool valuations. Current transactions should affect the reports prospectively, retaining the integrity of past transactions, distributions, and valuations.

We recommend that the Treasurer's Office improve internal control procedures for the Local Government Investment Pool by implementing an approval and review process over investment transactions; providing adequate documentation to support the investment transactions; limiting authority to make changes in the investment information; preparing reconciliations to ensure that income is calculated and distributed to the participants accurately; and ensuring that the integrity of past transactions, distributions, and valuations is maintained when adjustments or corrections are made.

PRIOR FINDINGS AND RECOMMENDATIONS. The prior report contained one finding and recommendation.

PRIOR FINDING #1. Internal control procedures over separately invested State funds needed improvement. Accounting controls include procedures to ensure that information is accurate, valid, and timely. Some procedures that needed improvement were:

1. Supervisor reviews and approvals were not always evident.
2. Reconciliations were not always made in a timely manner for the long-term fund.
3. Investment assistants were not properly trained.
4. Support documentation was not always available for review.

We recommended that the Treasurer's Office improve internal control procedures by documenting management review and approval, reconciling all external statements to internal record keeping, training investment assistants to complete day-to-day work, and keeping documentation to support reports and transactions.

The Office has improved supervisor review of documentation, reconciliation of external reports, and staff training for these State funds. Similar improvements in internal controls are recommended for the Local Government Investment Pool in the current findings. **CLOSED**

AGENCY RESPONSE. The State Treasurer has reviewed the report and is in general agreement with its contents.

FINANCIAL SUMMARY. The procedures completed and described above help us express our opinion on the fairness of presentation of the *CAFR*. Although no opinion is given on the financial data presented in this report, one is given on all State funds in the *CAFR*, including the financial data presented here.

The following schedule summarizes the financial operations of the Treasurer's Office for the fiscal years ended June 30, 2002, 2003, and 2004. The Treasurer's Office includes Agency 150, used to account for the administrative portion of the State Treasurer's duties, and Agency 152, used to account for the other duties of the Treasurer.

The administration of the Treasurer's Office is funded by a General Fund appropriation and fees charged for investing State agencies' and joint powers' (Local Government Investment Pool) funds. The investment fees are deposited into the State Treasurer's Professional Service Fund 0475.

The following funds are used for the general administrative operating activities of the Office.

AGENCY 150 – ADMINISTRATIVE FUNDS – FISCAL YEAR 2002

	<u>General Fund</u>	<u>Professional Services Fund 0475</u>	<u>Idaho Millennium Income Fund 0499</u>	<u>Idaho Millennium Fund 0540</u>
Beginning Balance or Appropriation	\$1,239,300	\$143,345	\$659,244	\$85,439
Receipts/Transfers In	<u>180,830</u>	<u>478,823</u>	<u>3,105,539</u>	<u>26,647,553</u>
Total Appropriation and Receipts	<u>\$1,420,130</u>	<u>\$622,168</u>	<u>\$3,764,783</u>	<u>\$26,732,992</u>
<u>Disbursements:</u>				
Personnel Costs	\$813,035	\$360,423	\$0	\$0
Operating Expenses	422,408	147,286	0	0
Trustee and Benefit	0	0	2,756,500	0
Transfers Out	0	0	0	21,774,537
Net Purchase of Investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,647,332</u>
Total Disbursements	<u>\$1,235,443</u>	<u>\$507,709</u>	<u>\$2,756,500</u>	<u>\$26,421,869</u>
Reversion to State General Fund	<u>\$184,687</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Ending Balance	<u>\$0</u>	<u>\$114,459</u>	<u>\$1,008,283</u>	<u>\$311,123</u>
Investments				<u>\$54,951,793</u>

AGENCY 150 – ADMINISTRATIVE FUNDS – FISCAL YEAR 2003

	<u>General Fund</u>	<u>Professional Services Fund 0475</u>	<u>Idaho Millennium Income Fund 0499</u>	<u>Idaho Millennium Fund 0540</u>
Beginning Balance or Appropriation	\$1,281,200	\$114,459	\$1,008,284	\$311,122
Receipts/Transfers In	<u>2,228,984</u>	<u>496,351</u>	<u>5,039,466</u>	<u>71,008,303</u>
Total Appropriation and Receipts	<u>\$3,510,184</u>	<u>\$610,810</u>	<u>\$6,047,750</u>	<u>\$71,319,425</u>
<u>Disbursements:</u>				
Personnel Costs	\$818,351	\$366,062	\$0	\$0
Operating Expenses	383,904	167,791	0	0
Capital Outlay	0	0	0	0
Trustee and Benefit	0	0	3,579,200	0
Transfers Out	0	0	0	73,025,590
Net Purchase of Investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,706,165)</u>
Total Disbursements	<u>\$1,202,255</u>	<u>\$533,853</u>	<u>\$3,579,200</u>	<u>\$71,319,425</u>
Encumbrances	\$78,496	\$0	\$0	\$0
Reversion to State General Fund	<u>2,229,433</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Balance	<u>\$0</u>	<u>\$76,957</u>	<u>\$2,468,550</u>	<u>\$0</u>
Investments				<u>\$0</u>

AGENCY 150 – ADMINISTRATIVE FUNDS – FISCAL YEAR 2004

	<u>General Fund</u>	<u>Miscellaneous Revenue Fund 0349</u>	<u>Professional Services Fund 0475</u>	<u>Idaho Millennium Income Fund 0499</u>	<u>Idaho Millennium Fund 0540</u>
Beginning Balance or Appropriation	\$1,186,392	\$0	\$76,956	\$2,468,549	\$0
Beginning Encumbrances	78,496	0	0	0	0
Receipts/Transfers In	<u>0</u>	<u>39,750</u>	<u>620,890</u>	<u>41,128</u>	<u>22,871,618</u>
Total Appropriation and Receipts	<u>\$1,264,888</u>	<u>\$39,750</u>	<u>\$697,846</u>	<u>\$2,509,677</u>	<u>\$22,871,618</u>
 <u>Disbursements:</u>					
Personnel Costs	\$808,603	\$0	\$367,757	\$0	\$0
Operating Expenses	403,509	3,573	176,205	0	0
Capital Outlay	0	0	11,695	0	0
Trustee and Benefit	0	0	0	224,700	0
Transfers Out	0	36,152	0	1,900,383	0
Net Purchase of Investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>17,978,253</u>
Total Disbursements	<u>\$1,212,112</u>	<u>\$39,725</u>	<u>\$555,657</u>	<u>\$2,125,083</u>	<u>\$17,978,253</u>
Reversion to State General Fund	<u>\$52,776</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Ending Balance	<u><u>\$0</u></u>	<u><u>\$25</u></u>	<u><u>\$142,189</u></u>	<u><u>\$384,594</u></u>	<u><u>\$4,893,365</u></u>
Investments					<u><u>\$17,978,253</u></u>

Fund 0001
General Fund

The General Fund receives appropriations to be used for general functions of the State Treasurer's Office.

Fund 0349
Miscellaneous Revenue Fund

This fund receives revenue generated from the sale of Idaho commemorative silver medallions as authorized by Idaho Code, Section 67-1223. These receipts are to be used for operating expenses related to the sale of those medallions to the public, with the remainder transferred to the Division of Veterans Services for maintaining the State Veterans Cemetery. Sales of these medallions began in fiscal year 2004. Start-up costs to create the medallions were originally paid from the General Fund. Those costs were reimbursed in a transfer of \$27,224 from this fund. The remaining \$8,928 was transferred to the Division of Veterans Services.

Fund 0475
Professional Services Fund

This fund receives fees for administration of the Local Government Investment Pool and investing idle funds for agencies that receive their own interest. These receipts are used to pay personnel costs and operating expenditures for investing activities.

Fund 0499
Millennium Income Fund

This fund receives an annual distribution from Millennium Fund 0540 and interest earned on the fund balance. The money is appropriated by the legislature, based on recommendations from the Millennium Fund Committee.

Fund 0540
Millennium Fund

This fund receives tobacco settlement receipts, as well as interest earned by the fund. On the first business day of July, or as soon thereafter as possible, the State Treasurer distributes to the Idaho Millennium Income Fund, 5% of the Idaho millennium fund's average monthly fair market value for the 12 months of the preceding 24 months. However, the distribution shall not exceed the Idaho Millennium Fund's fair market value on the first business day in July. The distributions to the Millennium Income Fund for fiscal years 2002, 2003, and 2004 were \$2,438,933, \$4,943,065, and \$0, respectively. The distribution method was changed during the fiscal year 2003 legislative session, to the process described above. There was no balance in the Millennium Fund at the end of fiscal year 2003, so no distribution was made for fiscal year 2004.

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the State Treasurer's Office and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by State Treasurer, Ron Crane, and his staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:
Ray Ineck, CGFM, Supervisor, Legislative Audits

Report CA15004/IC15004

For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.
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